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Study Finds Slower Growth in Bank Lending to Small Firms

Growth in bank lending to large firms accelerated in 1999, while growth in small firm lending was limited in this same period, according to the recently published 1999 editions of the Office of Advocacy's studies of bank lending to small businesses.

The newly released studies review bank lending in 1998–1999 in three categories:

• *Small Business Lending in the United States* is a state-by-state review of all commercial banks' business lending in amounts under $1 million. Banks are ranked within states based on four factors: the total dollar amount of business loans under $1 million, the number of such loans, the ratio of these loans to total bank assets, and the ratio of these loans to total business loans made.

• *The Bank Holding Company Study* reviews 57 large bank holding companies' (BHCs) "small business friendliness" with respect to loans of less than $1 million. The 57 BHCs, each with more than $10 billion in assets, are ranked nationwide.

• *Micro-Business-Friendly Banks in the United States* is a state-by-state listing of the most micro-business-friendly banks based on lending in amounts of less than $100,000.

Continued on page 2

Atlantic Scallop Fishers Get Renewed Access to Georges Bank

North Atlantic scallop fishers — such as this trawler off the New England coast — will once again have limited access to scallop beds in the Georges Bank following a decision of the National Marine Fisheries Service that was prompted by the Office of Advocacy and fishing trade groups. For details, turn to page 4 of this issue. (Photo courtesy of Fisheries Survival Fund)

Bank Lending, *from page 1*

Nationwide, commercial banks' lending to large firms (in amounts over $1 million) in 1999 increased at almost double the rate of lending to small firms — 14.6 percent versus 7.6 percent. Dollars in micro-business loans — that is, those under $100,000 — increased by just 2.5 percent over the same period.

Bank consolidations continue to be a major factor in small business lending. Since 1995, the number of commercial banks filing reports with federal banking regulators has declined at a rate of almost 375 banks per year — from 10,149 in 1995 to 8,659 in 1999. Virtually all of the decline was in the very smallest banks (those with less than $100 million in assets). As interstate bank mergers increase, so does the small firm loan volume from out-of-state banks or bank holding companies.

"In the continuing merger era, we have been monitoring the levels of small business lending, based on the available data," said SBA Chief Counsel for Advocacy Jere W. Glover. "The smallest banks tend to be more small-business-friendly in their ratios of small business loans to business loans overall. As they disappear, we continue to be concerned about small firms' access to an adequate supply of capital for startup, operations, and expansion."

Again in this year's editions, in addition to data from "call reports" that banks file with bank regulatory agencies, the lending reports use data gathered under the revised Community Reinvestment Act (CRA) regulations. Call reports cover the stock of loans outstanding from all banks as of June 30, 1999, classified by the location of the bank headquarters. CRA data reflect the flow of loans over the entire 1998 calendar year, classified by the borrower's location. CRA reports cover only larger banks — those with more than $250 million in assets or members of BHCs with more than $1 billion in assets. The CRA data show many states benefiting from small-firm lending by banks headquartered in other states.

The Small Business Administration's "preferred" and "certified" lenders are considered small-business-friendly, but because generally only the non-guaranteed portion of loans sold in the secondary market are in the call reports, banks that participate in the SBA's loan programs and use secondary markets extensively may have artificially low rankings.

For More Information

The 1999 editions of the Office of Advocacy's three lending studies are available on the Internet at *www.sba.gov/advo/stats/lending/*. *Small Business Lending in the United States* is available in 51 separate state editions. The other two studies, *The Bank Holding Company Study*, and *Micro-Business Friendly Banks in the United States* are in single, national editions.

Paper and microfiche copies of these reports are available for purchase from the National Technical Information Service, tel. (800) 553-6847, or visit the NTIS Web site at *www.ntis.gov*.

Technical questions about the reports should be directed to Dr. Robert Berney, tel. (202) 205-6875, e-mail: *robert.berney@sba.gov*; or Dr. Charles Ou, tel. (202) 205-6966, e-mail: *charles.ou@sba.gov*.

For the locations of SBA "preferred" and "certified" lenders, contact your local SBA office, or visit the SBA's home page at *www.sba.gov/financing/lender.html*.

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Message from the Chief Counsel

Using Our Resources to Best Protect Small Business

by Jere W. Glover

Small businesses face unique obstacles in their dealings with the federal government. Some federal agencies have little experience with small businesses and often ignore their needs when formulating new regulations. All too often, regulatory burdens that big businesses can learn to live with sound the death knell for a small company. At the Office of Advocacy, our job is to change that situation and to work to improve the environment for small business. It is our task to be small business' voice within the federal government. Advocacy uses the congressional mandate we have been given — with such tools as the Regulatory Flexibility Act and authority to conduct research on small business — so that the needs of small business will be considered when government acts.

In our most recent report to Congress on one of these tools, the Regulatory Flexibility Act, we calculated that, in just one year, rules changed by federal agencies to minimize burdens on small entities reduced the potential cost of regulations by almost $5.3 billion in fiscal year 1999. We did not calculate this number from our own estimates; the figures were obtained from the agencies themselves or from industry groups involved in the process. And while $5.3 billion is an impressive number, I would be the first to say that it is at best a good beginning. We are in no danger of working ourselves out of a job.

The Office of Advocacy is able to work with federal agencies, small businesses, and industry representatives to achieve regulatory relief often because sound economic data are available that support our efforts. Sound public policy changes are often the result of good economic research and analysis. We must have solid statistical support for our comments on behalf of small business before Congress and federal regulatory agencies. And there are few other places to turn for such information: the Office of Advocacy is the only unit of the federal government that develops and maintains data on small business and studies the impact of federal policy on them.

Being the voice for small business within the federal government entails using a variety of research, legal, and statistical tools. Here is how we do it.

We have been fortunate over the past few years to have the resources available to develop new sources of information on small business and to enhance what we already knew.

For example, in this edition of *The Small Business Advocate* we offer reports on Advocacy-funded (or conducted) research on bank lending to small business and the characteristics of home-based business. The research on U.S. banks that we've ranked as small-business-friendly aims to help small businesses better identify potential sources of financing and create competition among institutions for small business dollars. The study of home-based businesses makes possible our ability to give constructive comments to policymakers who work to ensure the viability and growth of small business in our country.

We have also been able to develop exciting new resources of small business data, such as the Business Information Tracking Series, or BITS (for details, see the January/February 2000 issue of *The Small Business Advocate*). BITS, developed in conjunction with the Bureau of the Census, is a dynamic data base that allows the progress of individual businesses to be tracked from year to year. It is now available to researchers to help illustrate the contribution of small business to the economy. The Office of Advocacy continues to work with the Internal Revenue Service, the Bureau of the Census, and other federal agencies to measure small business trends.

In addition to new sources of economic data, the Office of Advocacy has been looking ahead to learn how industrial and financial restructuring are likely to affect small business in the years to come. For example, this past January we held a one-day conference on research issues in industrial organization and small business. Attendees heard from leading scholars and the chief of staff of the Justice Department's Antitrust Division.

Details on this and other information generated by the Office of Advocacy in support of small business is available on the office's Web site at *www.sba.gov/advo*. I encourage you to visit it often. There will be many great things to come.

Commerce Dept. Allows for Re-Opening of North Atlantic Scallop Fishing

Shellfish lovers on the East Coast may have noticed that scallops are bigger and more plentiful than they've been for quite a while. That's because New England scallop boats have been catching scallops bigger than golf balls since the secretary of commerce ordered the opening of an area of the Atlantic that had been closed to scallop vessels for almost five years.

The decision to open part of Georges Bank (a section of the Atlantic off the Massachusetts coast) from June to December 1999 came after the Office of Advocacy supported the scallop industry's recommendation that opening a portion of the closed areas would have economic and scallop conservation benefits. The Office of Advocacy endorsed the rotational opening as an alternative to the Atlantic Sea Scallop Fishery Management Plan proposed by the National Marine Fisheries Service (NMFS) in December 1998 (published in the *Federal Register* at 63 FR 70093) that would have economically crippled the Atlantic scallop industry from Massachusetts to North Carolina.

On January 28, 1999, the Office of Advocacy criticized an NMFS proposal to amend the fishery management plan for the scallop fishery industry because the proposal failed to include viable alternatives. The NMFS' proposal allocated 120 days at sea for scallop vessels in 1999, a significant reduction from the over 200 days that most full-time vessels had historically fished. In 2000, the allocation would have been reduced to 51 days at sea and would have stayed low for the remainder of a 10-year rebuilding period. The Office of Advocacy estimated that revenue under this proposal would have been reduced by 38 percent in 2000 due to the reduction in days at sea.

A recent decision by the Department of Commerce to re-open the Georges Bank to limited scallop fishing may help an economically depressed area in New England.

In its written comments, the Office of Advocacy suggested that NMFS consider employing a rotational re-opening scheme (similar to terrestrial crop rotation) offered by representatives of the scallop industry. The office added that such a rotational scheme should begin with the opening of portions of the long-closed Georges Bank area. The Office of Advocacy noted in its comments that a recent study conducted by the University of Massachusetts indicated that the closed Georges Bank area contained a huge concentration of scallops that could sustain the economic viability of the scallop fleet if fished at a low exploitation rate. This same study, the Office of Advocacy noted, also revealed that scallops might even be dying from overcrowding in some of the closed areas.

Although the NMFS ultimately finalized its rebuilding plan, the re-opening of Georges Bank by the secretary of commerce should provide an economic boost to the Massachusetts fishing community, as well as a demonstration of the now-acknowledged benefit of rotational scallop fishing. The New Bedford area of Massachusetts, a major scallop fishing community, is an economically depressed area. Recent statistics indicate that the average annual pay in the New Bedford area is well below the Massachusetts and national averages. The unemployment rate for the area is higher than state and national rates. Representatives of the scallop fishing industry estimate that the recent opening will bring about $48 million in income to scallop fishers and much more to the general economy.

"The Office of Advocacy applauds the secretary of commerce for his decision," said Chief Counsel for Advocacy Jere Glover. "The opening could breathe new life into the New Bedford area of Massachusetts, an economically depressed region that is highly dependent on the fishing industry."

For More Information

The Office of Advocacy's comments on the National Marine Fisheries Service's proposals regarding scallop fishing are on the Internet at *www.sba.gov/advo/laws/comments/nmfs.html.*

The Office of Advocacy continues to work with the scallop fishing industry on continuing management measures that could minimize adverse economic effects and provide a constructive alternative approach for the 10-year rebuilding of Atlantic scallop stocks. For more information, contact Jennifer Smith in the Office of Advocacy at (202) 205-6532 or via e-mail at *jennifer.smith @sba.gov*.

Economic News

Women Business Owners Profiled in New Data

How many women own businesses? How big and how profitable are those businesses? How do they differ from male-owned businesses? What has been happening to the industry mix and relative number, size, and profitability of female- and male-operated firms over time? A partial answer to all of these questions can be derived from a unique data base that the Office of Advocacy created from tabulations supplied by the Statistics of Income Division of the Internal Revenue Service (IRS).

Since the 1980s, the SBA's Office of Advocacy has contracted annually with the IRS for tables of sole proprietorships classified by gender and major industry. These are the only comprehensive annual data on the number of businesses by gender. Because other types of businesses (such as partnerships and corporations) may have multiple owners of both genders and owners other than individuals, sole proprietorships are also the business category for which classification by gender is the most meaningful.

Sole proprietorships account for about three-quarters of all businesses. There were 4.8 million corporate income tax returns and 1.8 million partnership returns filed for 1997. In contrast, 17.2 million individual and joint tax returns included a Schedule C, the IRS form used to report income and expenses from non-farm sole proprietorships. (These tax returns included a total of 19.2 million Schedule Cs, as some individuals and couples had more than one proprietorship during the year.)

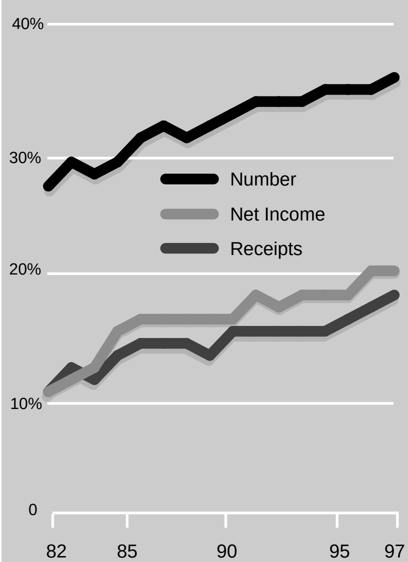
The IRS tabulations show that 6.7 million of the 19.2 million proprietorships in 1997 were operated by women and 11.8 million by men. For the remaining 700,000, the owner's gender was unknown or both names were incorrectly included on a joint return; these returns are excluded below.

The typical proprietorship is very small: in 1997 receipts per business averaged about $45,000, with net income averaging $10,000. Women-operated proprietorships are even smaller, averaging $22,000 in receipts, versus $58,000 per firm for the male-operated firms. Net income per firm averaged $5,500 for women and $12,300 for men.

These gaps have been shrinking over time, but very slowly. The women's share of sole proprietorships climbed from 27 percent of the total in 1982 to 36 percent in 1997 (excluding "jointly operated" proprietorships). Based on the average annual change over that period (just over half a percentage point per year), women will not catch up to men in numbers of sole proprietorships until about 2020.

Growing Up, Female

Women-owned share of the number, income, and receipts of sole proprietorships, 1982–1997.



Source: SBA, Office of Advocacy, from unpublished IRS data.

The story is similar with respect to receipts and net income. In 1997 the women's share of total receipts (18 percent) and net income (20 percent) reached new highs, but these shares have grown by roughly half a percentage point a year, on average, since 1982.

Half of all sole proprietorships in 1997 were in services. About 61 percent of female-operated firms were in service industries, with another 23 percent in wholesale and retail trade. (Roughly 45 percent of male-operated firms were in services; mining, construction and manufacturing was runner-up for men, with 22 percent of the firms.)

Although every industry has increased in absolute numbers of proprietorships, the mix has been changing. The fastest-growing industry group for women was services, while the percentage of proprietorships that are in wholesale and retail trade (dominated by door-to-door and telephone sales) and finance, insurance, and real estate (principally real estate agents and brokers) has been shrinking. In contrast, there has been very little change in the industry mix of male-operated firms.

For More Information

For more information about these tabulations of sole proprietorships, go to the Office of Advocacy's Web site at *www.sba.gov/advo/stats*.

Technical questions about the data may be addressed to Kenneth Simonson in Advocacy's Office of Economic Research at (202) 205-6973, or via e-mail at *kenneth.simonson@sba.gov*.

Home-Based Businesses Profiled in New Report

As recently as the early 1980s, home-based businesses were still being characterized as economically marginal activities. But a recently released report sponsored by the SBA's Office of Advocacy convincingly dispels this notion, showing how home-based businesses (HBBs) are a dynamic segment of the U.S. economy, accounting for about 52 percent of all businesses and some 10 percent of total business receipts, or about $314 billion.

The report, "Homebased Business: The Hidden Economy," was prepared by Joanne Pratt Associates of Dallas, Texas, under contract to the Office of Advocacy. It is based on detailed data collected by the Bureau of the Census in 1996 and 1997 concerning business activity in 1992.

"Home-based businesses have long been a successful incubator for entrepreneurs and small businesses," said Jere W. Glover, the SBA's chief counsel for advocacy. "I believe the new research will help policy makers work to further break down barriers to new economic development and expansion, especially as technology drives the new economy."

Some highlights of the report include:

• More than 55,000 HBBs (about 5 percent) had sales of $1 million or more. These same firms employed over 3.5 million persons, both at home and off-site.

• Forty to 44 percent of all HBBs required less than $5,000 for start-up. Another 25 percent needed $5,000 to $25,000. By contrast, a quarter of non-home-based businesses needed more than $25,000 to start.

• One-third of all home-based firms used personal assets to start, and 46 percent used personal savings. Because HBBs tend to remain in the home — less than 5 percent eventually move out of the home — there is some evidence that capital constraints prevent more firms from expanding.

Once derided as the domain of hobbyists and moonlighters, home-based businesses have become significant contributors to economic growth.

• The average receipts of all HBBs were around $40,000, with some variation by demographic group. However, as receipts grow beyond $50,000, a greater percentage of firms is likely to be non-home-based.

• Thirty-one percent of home-based business owners work full time (40 hours per week or more) at their business. Fifty-three percent work 48 or more weeks during the year.

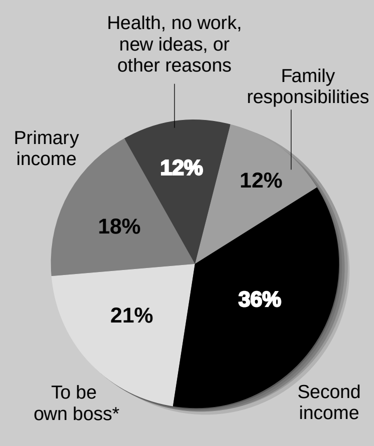
• Over half of all HBBs survive five years; firms which close do so primarily from lack of cash or access to a business loan.

• Of firms operating in 1992, about 85 percent of firms with paid employees survived until 1996, compared with 51 percent of those with no paid employees.

The researchers conclude the report by identifying future challenges to the continued growth of home-based businesses. These include the costs associated with implementing a working electronic commerce structure, tax rules that prohibit the deduction of legitimate business expenses, and outdated local zoning regulations that restrict commerce in residential areas.

Why They Do It

Main reasons given for acquiring or starting a home-based business.



*This reason may include earning either a primary or secondary income.

Note: Numbers do not add to 100 due to rounding.

Source: Joanne H. Pratt Associates, "Home-based Business: The Hidden Economy," figure 2-2.

For More Information

Copies of *Homebased Business: The Hidden Economy* are available for purchase from the National Technical Information Service, tel. (800) 553-6847, or visit the NTIS Web site at *www.ntis.gov*. Ask for document no. PB2000-104371.

The full text of the report, as well as a three-page summary (*Research Summary* no. 194) are on the Office of Advocacy's Web site at *www.sba.gov/advo/research*.

For techncial questions concerning the report, contact Bruce Phillips in Advocacy's Office of Economic Research at (202) 205-6530 or via e-mail at *bruce.phillips@sba.gov*.

News Briefs

$5.3 Billion in Regulatory Savings in FY 1999, Says New Report

Increased compliance with the Regulatory Flexibility Act (RFA) on the part of federal agencies — through the intervention of the Office of Advocacy and others — resulted in regulatory cost savings estimated at almost $5.3 billion in fiscal year 1999, according to the latest edition of an annual report published by the Office of Advocacy. The document, *The Annual Report of the Chief Counsel for Advocacy on Implementation of the Regulatory Flexibility Act*, is the 18th edition of this annual report to Congress and the President since enactment of the RFA in 1980. It covers enforcement activities during fiscal year 1999.

The RFA requires federal regulatory agencies to take into account the effects on small entities of their proposed regulations. In 1996, the law was amended by the Small Business Regulatory Enforcement Fairness Act (SBREFA), which set up special procedures for the Environmental Protection Agency (EPA) and the Occupational Safety and Health Administration (OSHA) to follow under the RFA, and gave the courts jurisdiction to review agency compliance. The SBREFA amendments also reaffirmed the authority of the SBA's chief counsel for advocacy to file *amicus curiae* briefs in judicial appeals brought by small entities.

"The Regulatory Flexibility Act serves as a safety net for small businesses," said Chief Counsel for Advocacy Jere W. Glover. "The value of the act is that savings to small businesses can be accomplished without erecting barriers to competition or compromising public policy objectives."

In addition to calculating regulatory savings, the 1999 report details the work of Small Business Advocacy Review Panels on proposed regulations issued by the EPA and OSHA. The report also offers details on the 76 formal comments filed by the Office of Advocacy over the 12-month period. These comments cover a broad spectrum of proposed regulations, from Postal Service regulations that would affect commercial mail receiving agencies to rules restricting Atlantic scallop fishing proposed by the Department of Commerce.

"More work remains to be done," said Chief Counsel Glover. "Many agencies do not yet understand that compliance with the RFA does not equate to special treatment for small business at the expense of sound public policy. Correcting these misconceptions will remain the focus of the Office of Advocacy in the coming years."

Copies of *The Annual Report of the Chief Counsel for Advocacy on Implementation of the Regulatory Flexibility Act, Fiscal Year 1999* are available for purchase from the National Technical Information Service, tel. (800) 553-6847. Ask for document number PB2000-102112. The report is also available for downloading from the Office of Advocacy's Web site at *www.sba.gov/advo/laws/flex/99regflex.htm*.

New National Regulatory Fairness Ombudsman Named

SBA Administrator Aida Alvarez announced March 9 the appointment of Gail A. McDonald as the new Small Business and Agriculture Regulatory Enforcement Ombudsman. As national ombudsman, McDonald will work to help small businesses be heard on federal regulatory enforcement practices.

The post of ombudsman was created by the Small Business Regulatory Enforcement Fairness Act of 1996. The national ombudsman works closely with 10 small business regulatory fairness boards throughout the country. Through the boards — whose membership is composed of small business owners — small businesses can comment on the regulatory enforcement activity of federal agencies and how it affects them. The ombudsman is required to report annually to Congress on how such federal regulatory enforcement activity has affected small business.

Prior to her appointment as ombudsman, McDonald served as a consultant to the Federal Railroad Administration, advising on safety and policy issues. She also held prior appointments as administrator of the Saint Lawrence Seaway Development Corporation (where she was the first woman to hold that position) and as chairman of the Interstate Commerce Commission, where she worked with small business to eliminate burdensome reporting requirements for shippers.

For more information on the office of the ombudsman, visit the office's home page at *www.sba.gov/regfair/*.

Telecommunications Development Fund Seeks Investment Opportunities

The Telecommunications Development Fund (TDF) is a public/private venture capital firm that invests in small businesses in the communications industry. The fund seeks seed and early-stage companies that have innovative technology, products, and services and outstanding management. It considers investments in a wide range of communications sectors, provided the companies meet the TDF's investment criteria. A seven-member board of directors and fund management team oversees the fund.

The TDF provides financing in the form of equity investments ranging from $375,000 to $1 million per investment. According to the fund, it is focusing on equity investments in order to help meet a reported $20 billion to $30 billion annual shortfall that small businesses face in the supply of equity capital. In addition, many start-up businesses do not have the assets or collateral to qualify for loans.

Funding is provided through a highly competitive review process. The TDF welcomes referrals from other venture capital funds, investors, and bankers.

The TDF was established by the Telecommunications Act of 1996 to be a self-sustaining, private corporation. It was initially funded from the interest earned on deposits in spectrum auctions conducted by the Federal Communications Commission.

The fund was chartered by Congress to:

- Promote access to capital for small businesses in order to enhance competition in the telecommunications industry.
- Stimulate new technology development, and promote employment and training.
- Support universal service and promote delivery of telecommunications services to underserved rural and urban areas.

In addition to financing, the TDF provides management and technical assistance to the companies in which it invests.

For more information on the Telecommunications Development Fund, visit its Web site at *www.tdfund.com*.

New Edition of State Profiles Published

An all new, 10th-anniversary edition of *Small Business Profiles*, a sourcebook of state small business statistics, has just been published the SBA's Office of Advocacy. Consisting of a series of three-page texts for each of the 50 states and the District of Columbia, each profile offers such basic data as the number of small businesses, their number of employees, the growth of women- and minority-owned businesses, and the fastest growing small-business industries. And, for the second time, the *Small Business Profiles* also include the names and locations in each state of banks that have been identified as "small business friendly" by the Office of Advocacy.

Copies of this 163-page book are available for purchase for $16 from the Superintendent of Documents, tel. (202) 512-1800. Ask for publication no. 045-000-00292-6. Copies of the individual three-page state profiles can be downloaded from the Office of Advocacy's Web site at *www.sba.gov/advo/stats*.

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